2 FINANCE

2.1 Finance Overview

The financial functional areas include those processes required to meet the State of South Carolina's budget execution requirements, Comprehensive Annual Financial Report requirements, managerial accounting, capital assets, grant accounting, project accounting requirements, and cash management requirements. Each functional area was broken down into individual business processes and discussed during the Business Blueprint workshops. The overall goal of the Business Blueprint workshops was to identify a single statewide design for utilizing the finance functionality within the SCEIS solution.

Within each of the functional areas, the workshops included separate discussions on identifying integration with other SCEIS solution functionality, setup and maintenance of master data, reporting needs, and integration with document imaging. The requirements for each of these areas were identified and discussed. The results of the decisions reached for the financial functionality have been included in each of the following finance sections.

The SME's (Subject Matter Experts) reviewed the current business processes within each of their agencies as well as addressed the communications and workings with the central financial groups (Budget and Control Board, State Treasurer's Office, and Office of the Comptroller General). The business processes were defined at a summary level for each of the financial back office functions.

The financial components are expected to replace many of the existing agency legacy financial systems. Other legacy systems supporting program specific activities may not be incorporated into the SCEIS solution. A review of these systems will be completed with the project team and each agency during their implementation.

Included below are the SCEIS solutions and their respective financial business processes:

Exhibit 2.1-1 SCEIS Solution and Finance Business Processes

SCEIS Solution	Business Process
Funds Management	Budgetary Execution
General Ledger	Standard Journal Entries Recurring Entries

SCEIS Solution	Business Process
	Period-end Closing
Accounts Receivable	Invoice Entry Manual Cash Receipting Lockbox Accounting
Accounts Payable	Invoice Entry Payment Processing
Cash Management	Cash Controls
Asset Accounting	Asset Additions Asset Retirements Asset Transfers Depreciation
Travel Management	Travel Reporting Requirements
Cost Accounting	Cost Center Accounting Allocations, Assessments, and Settlement
Project Accounting	Project Accounting
Grants Management	Grant Awards Grant Approvals Grant Accounting Drawdowns Grant Billing

2.1.1 Use of Functionality

Funds management functionality will be used to manage the budgetary controls for the legal state budget (Appropriation Act) as well as provide the flexibility for the agencies to manage their budget at a lower level. The budget, as approved, will be loaded in the SCEIS solution through an automated upload process. In a later phase of the project, the Budget Preparation module will be setup for agencies and the State Budget Office to manage the preparation and approval of the legal budget. Until the budget preparation functionality is implemented, the process will remain the same. Appropriation transfers and budget changes (additions and reductions) will be processed in the SCEIS solution and managed through the State Budget Office. Refer to the Funds Management section of this blueprint for additional information.

The general ledger functionality supports standard journal entry processing. These entries can be adjustments that occur based on mistakes in previously posted documents as well as entries to support recurring transactions. Interfaces from legacy systems will generally be record as journal entry transactions unless the data passed requires other levels of tracking or processing (i.e. accounts receivable by customer, payments to vendors, etc.). The general ledger includes cross-

functional details to support business warehouse-based queries and reports. Closing processes for year-end (as well as month-end) reside within the functions of the general ledger. Other components may have specialized processes for year-end and month-end; however, standard period-end transaction processing is controlled through the general ledger. Refer to the General Ledger section of this blueprint for additional information.

Accounts receivable includes functions to record, age, liquidate, and dun customers for invoice-related transactions. The accounts receivable functions within the SCEIS solution will be used by agencies (where appropriate) to replace legacy systems. Certain agency legacy systems will remain to generate billing amounts or to track detailed customer data subject to HIPAA and other specific business or program requirements. Liquidations to accounts receivable balances will be processed through lockbox transactions or in the case of Inter-departmental Transfers (IDT), through a custom interface. The lockbox transactions will be received from the bank on a daily basis, reviewed by the State Treasurer's Office and posted into the SCEIS solution. Where lockbox transactions do not contain the necessary details to liquidate or post within the SCEIS solution, a suspense account will be used by the State Treasurer's Office to collect the transaction. Each agency will be responsible for working with the State Treasurer's Office to process the necessary transactions to clear the suspense amounts. These transactions will be entered by either the agency or the Treasurer's Office, as appropriate. Refer to the Accounts Receivable section of this blueprint for additional information.

Accounts payable includes the ability to process payment vendor invoices originating from purchase order activities as well as invoices for direct payments (including travel reimbursement). Invoices from purchase order activities will be subject to the appropriate matching rules (2-way, 3-way) based on the types of goods/services procured. Direct payables do not include matching requirements within the SCEIS solution and will be processed as if no online purchase order was issued. The invoices will utilize the payment program parameters to maximize the discounts available based on the terms and due date of the invoice. Refer to the Accounts Payable section of this blueprint for additional information.

Cash is currently controlled by the State at the STARS 'subfund' level for most non-General Fund activities. The cash management functions will provide reporting information on participation in pooled cash as well as a mechanism for placing cash controls on transaction processing. The cash control function does not exist at the fund level in the SCEIS solution and

options have been identified in the Cash Management section of this Blueprint. Refer to the Cash Management section of this blueprint for additional information.

Functionality within the Asset Accounting module supports the tracking and depreciation activities involved with acquiring and managing an asset. Each asset record will include the specific details related to the type of asset, asset useful life, asset location, etc. The information captured within asset accounting will allow for the asset to be reported accurately based on the accounting method for financial reporting purposes. The functionality will also support the ability to transfer or retire an asset. Refer to the Asset Accounting section of this blueprint for additional information.

The State captures specific information during the processing of travel-related payments. The information is used to generate reports for management and the legislature on incurred travel, including travel advances. Travel payments are often made directly to the employee. In certain instances, the payment is submitted directly to a third party on behalf of the State employee. In these instances, the State continues to track the beneficiary of the travel payment. This information will be captured either within the SCEIS solution directly or via an agency-leveraged solution/interface. Long-term, the travel management functions within the SCEIS solution will be used; however, in order to utilize this portion of the solution, Human Resource information is required. The interim solution will be defined in the Realization activities. Refer to the Travel section of this blueprint for additional information.

Cost accounting functions exist within the SCEIS solution under the Controlling module. The cost accounting functions provide the ability to manage and track the actual costs of operating a group or organization. This function is referred to as cost center accounting. Other functionality will be implemented to support the settlement of costs. Settlements include the ability to allocate or assess costs from one collector to one or many receivers. Rules are defined as to how the distribution is to occur. The functionality utilized by the State will also include the distribution of overhead costs to the appropriate receivers. Currently, overhead is allocated or identified as part of the grant processing and may be included in the future by the State for true project costing. Refer to the Controlling section of this blueprint for additional information.

Project accounting refers to the ability to budget and track project costs. The tracking and monitoring can be at various levels within the project structure. The structure will be established so as to provide a crosswalk from the SCEIS solution to the statewide project information system.

The statewide system for project monitoring and approvals (SPIRS) will remain in place and receive transactional data from the SCEIS solution in lieu of STARS. At a later point in the future, SPIRS may be re-evaluated for replacement by other SCEIS components. Refer to the Project Accounting section of this blueprint for additional information.

Grant functionality has been enhanced in the new release of the SCEIS solution and contains functionality to track sponsor, to control budgets, to route items for approval, and to support the generation of reports (interim grant reports as well as year-end required reports). Budgets within the grants functionality have the option of integrating with the funds management functions. The options for integration are presented in the grants section of this document and will be determined during the Realization activities. Refer to the Grants Management section of this blueprint for additional information.

The SCEIS solution contains multiple methods of accounting. Each method is defined for a specific purpose. The integration of the components allow for each of these accounting methods to be managed through a single entry. The forms of accounting and the functions supporting them include:

Exhibit 2.1.1-1 Basis of Accounting Supported

Basis (Method) of Accounting	SCEIS Solution Supporting the Method
Budgetary	Funds Management
Modified Accrual	General Ledger (using Special Ledger/new GL)
Full Accrual	General Ledger (using Special Ledger/new GL)
Cost	Controlling
Project	Project Systems
Grant	Grants Management
Cash	General Ledger (using Special Ledger/new GL)

Within each of the functional areas, master data is defined to support the recording and posting of the transaction. Master data generally consists of accounting elements, however, can also include customers and vendors. As the SCEIS solution is intended to be a statewide system and used by the State agencies, the master data needs to be controlled so as to prevent unnecessary updates

and ensure integration with other components is maintained. It is recommended that a central master data maintenance group be used to manage and control additions and changes.

2.1.2 Organizational Structures

Within the SCEIS finance solution, specific high-level organizational structures are defined. These structures provide direction for how the solution operates and how data and reporting is defined. Each of the high-level organization structures has been defined with a brief description of the structure.

- **Chart of Accounts** - A classification scheme consisting of a group of general ledger accounts. A chart of accounts provides a framework for the recording of values, in order to ensure an orderly rendering of accounting data. The general ledger accounts they contain are used by one or more company codes. The State will operate under a single chart of accounts (SC01) that will be centrally maintained. The general ledger accounts will be made of natural numbers and will be created in the following manner:

  o Assets – 1000000000 – 1999999999

  o Liabilities – 2000000000 – 2999999999

  o Equity – 3000000000 – 3999999999

  o Revenue – 4000000000 – 4999999999

  o Expenditures – 5000000000 – 5999999999

  o Operating Transfers / Other – 6000000000 - 6999999999

  The State's current STARS object code structure will be replaced by a general ledger account in the SCEIS solution. The balance sheet accounts will be replaced by the Assets, Liabilities and Fund Balance accounts, the Revenue accounts will be replaced by the revenue general ledger accounts and the object and sub-object codes will be replaced by the expenditures general ledger accounts. The first number in the general ledger account will represent the classification above. The second and third number in the general ledger account will represent the State's current major object code as used by STARS. Numbers four through six will represent the minor object code. By making these three digits in the new General Ledger, it allows for expansion should the State have this future need. The remaining four characters will be reserved for expansion below the major / minor object code structure should agencies

require this level of detail. Any expansion must be approved, created and maintained centrally.

- **Chart of Depreciation** - The chart of depreciation contains the defined depreciation areas. It also contains the rules for the evaluation of assets that are valid in a given country or economic area. Each company code is allocated to one chart of depreciation. Several company codes can work with the same chart of depreciation. The chart of depreciation and the chart of accounts are completely independent of one another. The State will have a single chart of depreciation (SC01).

- **Company Code** - The company code represents an independent legal entity. Financial statements can be created at the company code level. Company code is used for various processes within the solution in order to balance entries, post transactions, manage inter-agency transactions, and manage security. For these reasons it is recommended that public sector organizations operate under a single company code. The State will use one company code (SC01).

- **Business Area** - An organizational unit within financial accounting that represents a separate area of operation or responsibility within the company code and to which value changes recorded in Financial Accounting can be allocated. Business area balance sheets and income statements are generally used for internal reporting purposes but information is available for external usage. The State will have one business area per Agency. This code will be the current STARS three digit code plus a zero for possible future expansion.

- **Dunning Area** - An optional organizational unit within a company code from which dunning (notice of past due accounts) is conducted. The dunning procedure is controlled and the dunning notices are sent separately per dunning area. A dunning area can represent the following: Division, Distribution channel, Sales organization, and Business area. The State will have a single Dunning Area (SC01).

2.1.3 Central Interfaces

Interfaces will be developed to post activity from agency legacy systems into the SCEIS solution. The identification of the agency legacy systems requiring an interface to the SCEIS solution will be conducted as part of the analysis during the agency implementation efforts. In order to minimize the impact on the agencies prior to conversion to the SCEIS solution, a standard interface will be developed to support data currently submitted to STARS. Other interfaces for

centralized functions include recording payroll transactions and automating the recording of IDT activity. Each of the interfaces has been discussed below.

State HR/Payroll

The SCEIS solution will include the implementation and integration of Human Resources/Payroll functionality in a later phase. Until this implementation occurs, the existing Human Resources/Payroll system will be providing the accounting entries for posting into the SCEIS solution. A crosswalk table (or set of tables) will be developed to support the translation of the payroll transactions into the SCEIS solution. It is not expected that the legacy systems will be modified to support the new accounting coding for employee payroll or fringe benefits.

STARS

The Statewide Accounting and Reporting System (STARS) will be replaced as part of the central government implementation. Most agencies submit transactions to the Office of the Comptroller General for posting into STARS. Each transaction includes data elements to identify the type of transaction and how the transaction is expected to post (debits and credits). In order to minimize the impact on the agencies with the implementation of the central government, an interface will be developed to accept the transactions in the STARS format, as it is currently being done, and break the transactions out into the appropriate SCEIS posting entries using a series of crosswalk tables. Similar to reports and transaction files made available to the agencies today, extracts and reports will be provided by the SCEIS solution to the agencies for analysis and reconciliation.

IDT Payment and Receipt Interface

As part of the IDT process, the accounts receivable transaction is posted into the SCEIS solution at the agency level. Each agency will be identified as a customer and the receivable posted to the customer account. Similarly, each agency will be established as a vendor for the processing of payments. Upon payment of the invoice by the paying agency, a no-print check transaction will be generated. These no print check transactions will be extracted during a nightly process and reprocessed as a cash receipt against the initial agency receivable document. No physical cash will change hands (i.e. no check issued or wire transfer). The payment run posting will create a cash reduction. The cash receipts interface posting will create a cash increase. It is imperative that the payment run and cash receipt interface be processed in the same cycle so as to minimize timing differences and provide for a net change in cash to the state of zero. In the instance where no receivable is available to liquidate in the SCEIS solution (i.e. non-SCEIS agencies), the receipt will be recorded as revenue or within a suspense account as appropriate.

2.1.4 Data Conversion

Data conversion activities will be required for each of the balances remaining in the STARS, as well as detailed open transactions within the agency legacy systems at the time of implementation. For each of these types of conversions a detailed plan will be developed with the agency during the implementation. In general, detailed transactions will not be converted. The conversion activities will focus on open documents and open items as well as master data records. Historical transactions will not be converted. The following includes a set of guidelines to be used when reviewing data to be converted.

Exhibit 2.1.4-1 Data Conversion Activities

Conversion Item	Approach
STARS Balances	Balances remaining within STARS will be converted upon the close of fiscal month 13 in fiscal 2006. The balances will be crosswalked to the appropriate SCEIS master data (i.e. fund, general ledger account, cost center, etc.) and loaded into the SCEIS solution as of period 12 of fiscal 2006. This will allow for the year-end closing balance carry-forward programs to be executed and the balances to be reflected as period 1 beginning balances for fiscal 2007.
Series Z (ZF/ZG CAFR Balances)	Series Z contains the balances used to generate the State's CAFR (Comprehensive Annual Financial Report) in accordance with GAAP. The annual activity in STARS is posted in Series Z and updates are made based on agency closing packages. Since Series Z is an accrual-based system and STARS cash-based, these transactions are not resubmitted to STARS. At the conclusion of the CAFR for fiscal 2006, the balances in Series Z (both systems) will be crosswalked and posted in the SCEIS solution.
Agency General Ledger Balances	Agency general ledger balances will need to be compared with the balances within the SCEIS solution including the Series Z entries. The net impact will require adjustment to the summary balances based on supporting details within the agency. These transactions will be manually processed as journal entry type documents.
Open Accounts Receivable	Open accounts receivable documents for agencies using the SCEIS to manage detailed activity (including aging) will be converted for each customer. The customer master file will need to be created first and then the detail transactions posted. An automated conversion program may be required depending on the volume of transactions.

Conversion Item	Approach
Fixed Asset Master Records	Asset master records will be converted from legacy systems. A standard format will be defined and provided for each agency to extract their asset records. It is expected that the master records be converted electronically through an upload program; however, some may require manual conversion.
State Vendor Master	The State vendor master will be loaded into the SCEIS solution. This will include the vendors to which the State has the appropriate paperwork on file. An additional conversion will be required for employee records in support of travel-related payments.
Budget Load	The budget as adopted will be loaded into the SCEIS solution. This is a one-time conversion of budget data and will require a crosswalk from STARS to SCEIS solution elements.

2.1.5   Document Imaging

During the course of the Business Blueprint workshops, specific types of documents were identified as candidates for imaging within each functional area. Certain imaged documents will be attached to the transactions and moved with the transaction through the approval process. Other imaged documents serve as a basis or foundation for the item. The types of documents vary from project drawings to allocation spreadsheets to bank deposit tickets. The specific documents and the documents' applicability to approval processing are contained within each functional section. The overall strategy of document imaging for the SCEIS solution has been included in the Technical section of this Blueprint.

2.1.6   Reporting

Reporting covers individual transactional reporting on daily activity as well as period-end historical reporting. The period-end can reflect the end of a fiscal month or the end of the fiscal year. For each functional area, the reporting needs were discussed with the SME's. The types of reports or specific reports were identified by the SME's and included in a listing for the functional area. The listing identifies the specific name or need for the report, a brief description of the report's objectives, and estimation as to whether a standard report or a standard infocube will be used to support the reporting need. If a standard report or infocube did not appear to meet the need, the report was identified as a "custom report."

The SCEIS solution includes the roll-out of the business warehouse functionality to identified users within each agency. The Business Warehouse provides a standard set of data cubes that the

agencies can utilize (with appropriate security) to develop agency-specific reports. The infocubes and a brief description of the infocube have also been included in the functional area.

Reporting needs as well as standard infocubes available for each functional area have also been identified in the Technical section.